Session III
The Basics of Retirement Planning

WORKING WITH THE SYSTEM

- **LEARN THE MECHANICS OF THE PROCESS**
- **INTEGRATE THIS AS A TOOL IN YOUR PERSONAL FINANCIAL PLAN**

Your enrollment brochure and the materials in the employee meetings are an attempt to introduce you to the system.

The Company is in the process of developing a new Summary Plan Description of the Savings Plan and it will be mailed to you prior to the active date of the system on July 15th.

THE SAVINGS PLAN AS A RETIREMENT PLAN

- **WHERE ARE YOU NOW?**
- **WHERE DO YOU WANT TO BE?**
- **CAN YOU GET THERE FROM HERE?**

Now to the good stuff. How do use all this information.

The Savings Program is designed to assist you in meeting your financial responsibilities.

It is the best of the tax-advantaged programs remaining.

Use it as a tool to help you achieve your goals.

Determine your current financial position.

Quantify your retirement objectives

Take the steps of enrollment and investment elections to assist you in achieving your goals.

WHERE ARE YOU NOW?

- **A FINANCIAL PLANNER WOULD CALL THIS A STATEMENT OF FINANCIAL POSITION OR A BALANCE SHEET**
- **IT IS REALLY AN INVENTORY OF "ASSETS" AND "LIABILITIES"**
  - **ASSETS=THINGS OF VALUE YOU OWN**
  - **LIABILITIES=AMOUNTS OWED OR DUE TO OTHERS THAT WILL BE SATISFIED OR PAID FROM YOUR ASSETS**
  - **NET WORTH = THE DIFFERENCE**

The first step in establishing you financial plan is that of quantifying where you are now. Your current net worth is important in determining your financial strength and condition and is obviously the starting point for developing a plan to improve that position.

Make a list of all your assets, make a list of all your liabilities and subtract one from the other. It is from this net worth that you are going to fund your financial objectives.

HOW DID YOU GET HERE ?
WHERE ARE YOU GOING?

- **THESE ARE QUESTIONS ABOUT CHANGES IN NET WORTH**
- **EVENTS THAT INCREASE NET WORTH=INFLOWS**
  - **COMPENSATION AND OTHER EARNINGS**
  - **TRANSFERS FROM OTHER ENTITIES**
- **EVENTS THAT DECREASE NET WORTH=OUTFLOWS**
  - **CONSUMPTION**
  - **TRANSFERS TO OTHER ENTITIES**
- **IMPORTANT EVENTS THAT DON'T CHANGE NET WORTH**
  - **BORROWINGS**
  - **EXCHANGES OF ONE ASSET FOR ANOTHER**

How you arrived at this particular net worth is a function of all those activities that caused it to increase and those that caused it to decrease.

Earnings, gifts and inheritances are the major events that cause our net worth to increase and consumption and transfers to others are what cause it to decrease.

It is possible for major events in our life to have no effect on our net worth. Exchanging one asset for another (cash for an automobile) will not change the net worth. Paying off a debt will not change the net worth, even though it will change both assets and liabilities.

WHERE DO I FIND THESE EVENTS?

- **LOOK AT YOUR TAX RETURN**
- **YOUR CHECKBOOK**
- **THE SHOEBOX APPROACH=INVOICES, DEPOSIT SLIPS AND RECEIPTS**

You already some accounting of the inflows and outflows. Your tax return is the governments way of asking you to summarize the tax related inflows and outflows

Your check register is typical place that summarizes these events

THE STATEMENT THAT SUMS THESE EVENTS IS A STATEMENT OF CHANGES IN FINANCIAL POSITION

- **LIST YOUR INFLOWS AND PREPARE A TOTAL**
- **LIST YOUR OUTFLOWS AND PREPARE A TOTAL**
- **THE DIFFERENCE IS A NET INCREASE OR DECREASE**

Summarizing the inflows and outflows for a particular period results in a most important measurement, that is, the net change in net worth for a period of time.

SO WHAT?

- **IF WE HAD THE TIME WE COULD PROVE THAT THE SUM OF INFLOWS AND OUTFLOWS TO DATE CREATED YOUR CURRENT FINANCIAL POSITION**
- **WE ALSO COULD PROVE THAT WE CAN PROJECT A FUTURE FINANCIAL POSITION BY PROJECTING FUTURE INFLOWS AND OUTFLOWS**

This is a round about way of pointing to something both obvious and at the same time most interesting.

These two simple accountings form the basis of every personal financial plan.

Net worth is nothing more than a measurement of cumulative inflows and outflows along the time line that is your life.

If we want to determine your net worth in the future, then all we have to do is project those inflows and outflows.

WE CAN REDUCE THIS TO A FORMULA

- **BEGINNING BALANCE PLUS INFLOWS LESS OUTFLOWS EQUALS ENDING BALANCE**
- **BB + IF - OF = EB**
- **SOLVE FOR ANY UNKNOWN**
  - **THIS IS A PENCIL AND PAPER LEVEL OF TECHNOLOGY**
  - **SOPHISTICATED PLANNERS ARE AVAILABLE IN THE MARKET**

And from that insight, we have a personal financial planning algorithm that will work for every person and every plan.

The more accurate we want our plan to be, the more accurately we are going to have to predict the inflows and outflows.

Paper and pencil are all you need to complete this task. There are a variety of software packages to allow you to accomplish this on the market today.

SO WHAT!

- **IF I KNEW MY FINANCIAL POSITION NOW**
- **AND I KNEW WHAT I WANTED IT TO BE (A FUTURE POSITION-LIKE AT RETIREMENT)**
- **ALL I WOULD HAVE TO DO WOULD BE TO DETERMINE THE CHANGES IN INFLOWS AND OUTFLOWS THAT WOULD GET ME THERE**
- **THIS IS A BUDGET=A PERSONAL FINANCIAL PLAN**

Finally, then it is this simple. If I have a retirement or other objective and I know what it will take in the way of resources to accomplish this, what I must concern myself with how do I get there from here.

THE PROPER PLAN

- **NOT: INFLOWS (INCOME) LESS OUTFLOWS (EXPENSES) EQUALS THE AMOUNT AVAILABLE TO SAVE**
- **RATHER**
- **INFLOWS (INCOME) LESS SAVINGS EQUALS THE AMOUNT AVAILABLE FOR OUTFLOWS (EXPENSES)**

I think we all suffer from the improper use of the plan which provides for us saving all that we don't spend, when we should obviously only spend that which we didn't save

INVESTMENT ESSENTIALS

- **EDUCATION**
  - **COURSES TO BE DEVELOPED WITHIN THE COMPANY**
  - **PERSONAL FINANCE MATERIALS**
- **ACCOUNTING**
  - **YOUR PERSONAL RECORDS**
  - **PC SOFTWARE PROGRAMS**
  - **PROFESSIONAL ASSISTANCE**
    - **TAX**
    - **ESTATE PLANNING**
- **MAINTENANCE**
  - **YOUR FUTURE IS DYNAMIC**
  - **YOUR INVESTMENTS MUST BE RESPONSIVE TO YOUR NEEDS**

What tools do you need? You are going to need to stay current in personal finance.

We are in the process of developing continuing programs in investment management and retirement planning. The bookstores have a wide variety of materials to choose from.

To insure you have a good start, you are going to have to do some accounting. You already employ several accounting tools, such as your check stubs and your check register. Now might be a good time to take them a little further by using the personal finance software packages designed to do just this task.

Because retirement is so important, you might consider using the services of a professional planner. The Company does not have any recommendations in this area. There are a large number of professional tax and estate planning services to call upon.

As a final reminder, nothing stays the same. You expectations change, your circumstances change. Once you develop a plan, it will be necessary to update it each year. As your investment horizon changes, you must make the appropriate changes in your allocations.

USE THE TOOLS AVAILABLE

- **WHAT IS YOUR TIME HORIZON?**
- **WHAT ARE YOUR RETIREMENT NEEDS?**
- **WHAT CAN YOU CONTRIBUTE OUT OF CURRENT ASSETS AND THEIR EARNINGS?**
- **WHAT CHANGES CAN YOU MAKE NOW TO ASSIST IN THE PROCESS?**
- **WHAT ARE YOUR EXPECTATIONS ABOUT GROWTH AND RISK?**
- **CHOOSE YOUR INVESTMENT ACCORDINGLY!!**

Now, take this back to the Savings Program.

How long until you retire? What are your retirement inflows and outflows predicted to be. If your outflows exceed your inflows, how much do you need in the way of personal savings to insure you can fund your needs during the balance of your life.

What can you do now to accomplish this.

Be reasonable and conservative in your estimates. You can always overspend to make up an error in the conservative direction

Be realistic about how your savings investments will do. Not every year will be an up year.

And now, just do it!!!!

RETIREMENT PLANNING

- **THE NEXT STEP IS UP TO YOU**
- **TAKE AN INVENTORY**
- **STATE YOUR OBJECTIVES IN A REASONABLE AND QUANTIFIABLE WAY**
- **COMPUTE THE CHANGES YOU NEED TO MAKE**
- **SET UP A MONITORING SYSTEM**
- **MAKE PERIODIC UPDATES**

So let’s get to it.

Following these steps is a lot easier to say than do. Take the time and effort and you will be pleasantly surprised at how successful you can be.

WHAT IS ON THE WAY?

- PERSONAL FINANCIAL PLANNING INFORMATION BOOM
- EDUCATION PROGRAMS WITHIN THE COMPANY
- INVESTMENT EDUCATION FROM THE TRUST AND THE RECORD KEEPER
- RETIREMENT PLANNING SEMINARS

My wish list would include these items.